



March 29, 2006

Via Facsimile & Extranet

**Re: Independent Auditor's Notice of Final Calculation for the Tobacco Litigation Master Settlement Agreement Subsection IX(c)(1) Account Payments Due April 15, 2006 – NOTICE ID: 0198**

Dear Notice Party:

PricewaterhouseCoopers LLP, in its capacity as Independent Auditor ("IA") to the Tobacco Litigation Master Settlement Agreement ("MSA"), provides the following detailed calculation ("Final Calculation") of amounts to be paid into the Subsection IX(c)(1) Escrow Account. This Final Calculation has been prepared in accordance with subsections XI(d)(4) and (5) and XI(i) of the MSA. The information contained herein incorporates by reference the information provided in the Independent Auditor's March 8, 2006 Preliminary Calculation of the amounts due April 15, 2006, except that the attachments and values therein have been modified as described below.

All capitalized terms used in this notice, unless otherwise defined herein, shall be defined as in the MSA. The information contained in this notice, including the attachments, is considered confidential and should not be used for any purpose other than as contemplated in the MSA.

### **Calculations**

The specific revisions from the March 3, 2005 Preliminary Calculation include:

1. Incorporating the Prime Interest Rate change effective March 28, 2006.
2. Incorporating revised 2005 Operating Income data received from Philip Morris on March 15, 2006.
3. Revised volumes for 2005 for General Tobacco per correspondence dated March 22, 2006.
4. Revised volumes for 1997 and 1998 from M/s. Dhanraj International per the PM's response to the 2006 Information Request (Notice ID: 0181) received on or about February 24, 2006.
5. Incorporating revised 2005 FET data received from the TTB on March 16, 2006.

The above revisions affect portions of the Non-Participating Manufacturer ("NPM") calculation, the size of the Total Market and, hence, each Participating Manufacturer's ("PM") Market Share. The first revision increased the interest amount calculated on various over or under payments. The second revision did not affect the amounts due from the Original Participating Manufacturers ("OPM") or the Subsequent Participating Manufacturers ("SPM"). The third revision decreased the Market Share and payment obligation of one SPM. The fourth and fifth revision decreased the Total Market Volume and affected the payment obligations for the SPMs as a result of their increased Market Share and/or the increased Market Share of the OPMs. This is detailed in the following table:



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Participating Manufacturer	2006 IX(c)(1) Preliminary	2006 IX(c)(1) Final	2006 IX(c)(1) Difference	Explanation of Change
Lorillard Tobacco	\$ 666,239,315.95	\$ 666,237,395.96	\$ (1,919.99)	Applied Increased Credit Amount
Philip Morris	3,446,645,283.88	3,446,639,474.61	(5,809.27)	Applied Increased Credit Amount
Chancellor Tobacco Company, PLC	(6,402.47)	(6,406.08)	(3.61)	Applied Increased Credit Amount
Commonwealth Brands, Inc.	225,525,007.43	225,385,179.93	(139,827.50)	Decreased Mkt Size, Increased Mkt Share & Applied Increased Credit Amount
Compania Industrial de Tabacos Monte Paz, S.A.	(384,855.66)	(385,091.54)	(235.88)	Applied Increased Credit Amount
Daughters and Ryan, Inc.	227,514.54	227,514.19	(0.35)	Applied Increased Credit Amount
Eastern Company SAE	(52,287.49)	(52,316.44)	(28.95)	Applied Increased Credit Amount
General Tobacco	111,972,153.23	107,596,873.72	(4,375,279.51)	Applied New Volume Information
International Tobacco Group (Las Vegas), Inc.	74,904.79	74,171.87	(732.92)	Applied Increased Credit Amount
Japan Tobacco International U.S.A., Inc.	1,981,992.83	1,947,259.85	(34,732.98)	Decreased Mkt Size, Increased Mkt Share & Applied Increased Credit Amount
KingMaker Marketing, Inc.	3,887,396.64	3,881,369.07	(6,027.57)	Decreased Mkt Size, Increased Mkt Share & Applied Increased Credit Amount
Konci G&D Management	666,442.58	665,685.81	(756.77)	Applied Increased Credit Amount
Kretek International	1,293,682.65	1,186,233.73	(107,448.92)	Applied Increased Credit Amount
Lane Limited	2,803,205.83	2,812,754.20	9,548.37	Decreased Mkt Size & Increased Mkt Share & Applied Decreased Credit Amount
Liggett Group LLC	14,836,047.78	14,847,948.55	11,900.77	Decreased Mkt Size & Increased Mkt Share
M/s. Dhanraj International	6,183,475.30	4,189,795.43	6,320.13	Decreased Mkt Size & increased Mkt Share & Applied Decreased Credit Amount
Mac Baren Tobacco Company	20,271.70	20,271.32	(0.38)	Applied Increased Credit Amount
PLANTA	(58.47)	(57.55)	0.92	Decreased Mkt Size & Increased Mkt Share & Applied Decreased Credit Amount
Premier Manufacturing, Inc.	(2,342,180.72)	(2,371,779.74)	(29,599.02)	Applied Increased Credit Amount
Santa Fe Natural Tobacco Company, Inc.	14,461,797.48	14,358,347.66	(103,449.82)	Decreased Mkt Size, Increased Mkt Share & Applied Increased Credit Amount
SEITA	(10,364.80)	(11,111.25)	(746.45)	Applied Increased Credit Amount
Sherman 1400 Broadway N.Y.C., Inc.	764,946.48	734,397.09	(30,549.39)	Applied Increased Credit Amount
Top Tobacco, L.P.	16,485,505.34	16,473,741.43	(11,763.91)	Decreased Mkt Size, Increased Mkt Share & Applied Increased Credit Amount
Vector Tobacco Inc.	(458,204.33)	(482,390.89)	(24,186.56)	Decreased Mkt Size & Increased Mkt Share
Virginia Carolina Corporation, Inc.	242,915.52	242,170.75	(744.77)	Applied Increased Credit Amount
Von Eicken Group	95,206.08	94,466.79	(739.29)	Applied Increased Credit Amount
<b>TOTAL</b>	<b>\$ 4,511,152,712.09</b>	<b>\$ 4,506,305,898.47</b>	<b>\$ (4,846,813.62)</b>	

### Payments,

The principal amounts due for those PMs with a payment obligation are summarized in Attachment 1a. This calculation incorporates any remaining overpayments from the IX(c)(1) payment due on April 15, 2005 and any remaining NPM Adjustment Settlement Agreement (Credits)/Payments.

Any remaining overpayments from this Final Calculation (see Attachment 1a) will be credited toward the next applicable payment as set forth in subsection XI(i)(2)(B) of the MSA.

**Payments are due on, or before, April 17, 2006<sup>1</sup>.** Pursuant to subsection XI(d)(7), each PM shall be obligated to pay the amount calculated as due from it by the Independent Auditor by the Payment Due

<sup>1</sup> Since April 15, 2006 is a Saturday, the Payment Due Date is April 17, 2006, the next business day.



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Date. Any PM electing to make this payment before April 17, 2006 should contact the Independent Auditor immediately.

Pursuant to subsection XI(d)(8), with respect to any disputed portion of the total amount due, any PM that pays such disputed portion into the Disputed Payments Escrow Account by the Payment Due Date shall not be liable for interest thereon even if the amount disputed was in fact properly due and owing. Any PM that does not pay any such disputed portion into the Disputed Payments Account by the Payment Due Date shall be liable for interest as provided in subsection IX(h) if the amount disputed was in fact properly due and owing.

### **Wiring Instructions**

Wiring instructions for the Subsection IX(c)(1) Account payments are as follows:

Citibank, N.A.  
ABA: 021 000 089  
Account Number: 36855852  
Account Name: Escrow Concentration  
Further Credit to Account Number for the IX(c)(1) Account # 794710

-or-

Further Credit to Account Number for the Disputed Payments Account # 794713

Attention: Mary Ellen Connolly, Senior Trust Officer, Phone (212) 816-5650

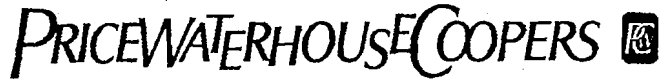
### **Disputes**

#### **Accuracy of Total Market Data**

The Independent Auditor acknowledges receipt of dispute letters from several settling parties. One of the concerns expressed in these letters is the completeness or accuracy of total market data. As stated earlier, this final calculation incorporates various data source changes in an effort to improve the quality of the market data. The Independent Auditor is continuing to work with the TTB, US Customs, and Puerto Rican Taxing Authorities to ensure that the market data is as accurate as possible.

#### **Use of Net Cigarette Volumes**

The Independent Auditor has also received a dispute letter from PMs objecting to the use of net volumes data (as described in the Data Source paragraph of the cover letter to Notice ID: 0185), for a number of reasons. The Independent Auditor was asked to explore alternative sources of total market data to that being previously used. As a result of that process (which included research, extensive discussions with various taxing authorities, analysis of alternative data, and discussions and meeting with members of the Technical Working Group and other PMs), the Independent Auditor is now using net volumes to determine both individual PM Market Shares and the Total Market. The basis for this change has been articulated in other correspondence.



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### **Incomplete PM Reported Volumes**

In addition, the Independent Auditor acknowledges receipt of dispute letters from certain Notice Parties regarding lack of complete volume data from PMs. The Independent Auditor documented these data voids in the letter accompanying the related Preliminary Calculation. The Independent Auditor repeatedly contacted those two PMs who provided either no data or incomplete data. The Independent Auditor used TTB data to estimate the 2005 volume for one of those PMs. The Independent Auditor assumed in its calculation that the other PM did not have any sales in 2005 since they have not had any sales in previous years. The Independent Auditor will continue to follow up with both the PMs.

### **Accuracy of PM Reported Volumes**

The Independent Auditor has received dispute letters related to the verification of PM reported volumes. The Independent Auditor obtained tax obligation data for individual domestic manufacturers from the TTB, from which it estimated annual domestic volumes. The Independent Auditor compared those calculated volumes to the self-reported volumes for the respective PMs and computed any differences between the two. The Independent Auditor requested that domestic PMs provide a reconciliation of the differences calculated by the Independent Auditor in its comparison of FET data to volumes self reported by the PMs. At this time most reconciliations have been completed, with a small number still outstanding from PMs. In most cases, the reconciliations satisfactorily resolved the differences. Additionally, the Independent Auditor is working with NAAG and US Customs to obtain import information to verify the volumes reported by PMs that are considered Imported.

### **Bi-Lateral Settlement Agreement**

The Independent Auditor has received dispute letters related to a Settlement Agreement between General Tobacco (Vibo Corporation) and the Settling States. The Independent Auditor acknowledges these disputes but believes it must follow the terms of the agreement, as it has for all other bi-lateral agreements (i.e., agreements between one PM and the Settling States) in this matter, in performing its calculations. Concerned parties should address their issues directly with General Tobacco and the Settling States.

### **Application of the Previously Settled States Reduction**

The Independent Auditor has also received disputes related to the Previously Settled States Reduction. Under the terms of the MSA, that adjustment is only applicable to OPMs. Without a contractual agreement, the Independent Auditor can not apply the Previously Settled States Reduction to the SPM payment obligations.

### **Application of the NPM Settlement Adjustment**

The Independent Auditor has received disputes from certain parties regarding the application of the NPM Adjustment in the 2003 IX(c)(1) calculation. Such disputes relate to the determination by the economic consultants (the "Firm") that the disadvantages experienced by the PMs as a result of the MSA were a significant factor contributing to the PMs' Market Share Loss in 2003.

Additionally, the Independent Auditor has received disputes from some PMs denying that some Settling States have "continuously had a Qualifying Statute in full force and effect during the entire calendar year immediately preceding the year in which the payment in question is due [1999-2005], and diligently enforced the provisions of such statute during such entire calendar year" (subsection IX(d)(2)(B) of the MSA). The Settling States do not agree with this position. Until such time as the parties resolve this



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issue or the issue is resolved by a trier of fact, the Independent Auditor will not modify its current approach to the application of the NPM Settlement Adjustment..

Other miscellaneous disputes were noted. All notices of disputes have been posted on the Tobacco Litigation Master Settlement Agreement Extranet.

Pursuant to the MSA, notice of dispute of this calculation must be delivered to all Notice Parties no later than April 10, 2005 (the date five days prior to the Payment Due Date). Any notice that is sent to the Independent Auditor should be sent to the following address:

Independent Auditor to the Master Settlement Agreement  
PricewaterhouseCoopers LLP  
Attn.: Ryan B. Harrell  
1201 Louisiana Street, Suite 2900  
Houston, Texas 77002  
Fax Number: (713) 356-6000

This notice was sent via facsimile and Extranet on March 29, 2006.

Authorized Users of the Tobacco Litigation Master Settlement Agreement Extranet may access this notice and related calculation on-line at <http://www.tlmsa.net>.

\* \* \*

A handwritten signature in black ink, appearing to read 'Theodore F. Martens', written over a horizontal line.

By: Theodore F. Martens  
Independent Auditor to the Master Settlement Agreement



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Attachments:	Attachment 1a:	Summary of Payments Due From Original Participating Manufactures and Subsequent Participating Manufactures
	Attachment 1b:	Summary of IX(c)(1) 2005 (Overpayments)/Underpayments
	Attachment 1c:	Summary of Net NPM Settlement (Credits)/Payment
	Attachment 1d:	Summary of Allocation by State of Payments from Participating Manufacturers (3 pages)
	Attachment 2:	Payments Due from Original Participating Manufacturers
	Attachment 3:	Calculation of Volume Reduction (MSA Exhibit E) (2 pages)
	Attachment 4a:	Calculation of the NPM Adjustment – Market Share Loss
	Attachment 4b:	Calculation of the NPM Adjustment – Aggregate Available Adjustment
	Attachment 4c:	Calculation of the NPM Adjustment – By Original Participating Manufacturers (3 pages)
	Attachment 4d:	Calculation of the NPM Adjustment – 14 Day Rule
	Attachment 5:	Determination of Subsequent Participating Manufacturers' Payment Obligations and Grandfathered Market Share (2 pages)
	Attachment 6:	Payments Due from Subsequent Participating Manufacturers
	Attachment 7:	Summary of Taxing Authority Data
	Attachment 8:	Calculation of Total Market Size
	Attachment 9a:	Allocation of Base Payments from the Original Participating Manufacturers to the Settling States (2 pages)
	Attachment 9b:	Allocation of Base Payments from the Subsequent Participating Manufacturers to the Settling States (2 pages)
	Attachment 10:	Allocation of the NPM Adjustment by State (2 pages)
	Attachment 11a:	Summary of Participating Manufacturer Data Using 0.09 RYO Conversion Factor
	Attachment 11b:	Summary of Participating Manufacturer Data Using 0.0325 RYO Conversion Factor
	Attachment 12:	Net Cigarette Volumes Reported, Participating Manufacturers Data Sheet
	Attachment 13:	Calculation of Inflation Adjustments Pursuant to MSA Exhibits C and E
	Attachment 14:	Alternative Calculation of Payment Due From Original Participating Manufacturers and Subsequent Participating Manufacturers
	Attachment 15:	Relative Market Share Calculation
	Attachment 16:	Actual Volume Calculated in Accordance with MSA Exhibit E
	Attachment 17:	Prime Interest Rate Table
	Attachment 18:	PLANTA Interest on Previously Released Dispute Account Funds
	Attachment 19:	Lorillard Tobacco Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 20:	Philip Morris Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 21:	Chancellor Tobacco Company, PLC Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 22:	Compania Industrial de Tabacos Monte Paz, S.A. Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 23:	Eastern Company SAE Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 24:	International Tobacco Group (Las Vegas), Inc. Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 25:	Lane Limited Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 26:	Mac Baren Tobacco Company Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 27:	PLANTA Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 28:	Premier Manufacturing, Inc. Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 29:	Santa Fe Natural Tobacco Company, Inc. Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 30:	SEITA Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 31:	Top Tobacco, L.P. Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 32:	Vector Tobacco Inc. Interest for IX(c)(1) 2005 (Overpayment)/Underpayment
	Attachment 33:	Von Eicken Group Interest for IX(c)(1) 2005 (Overpayment)/Underpayment